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THE FEDERAL FARM-LOAN ACT

The American farmer has had a harder time to get credit and has had to pay more interest on his loans than the American business man or the European farmer. This is not altogether due to his inability to give good security, nor to any doubt about his ultimate ability to pay his debts, but is principally because he has wanted the use of money for longer periods than the commercial banks like to lend it and because rural credits have not been organized in such a way as to suit the convenience of the long-time investor, or to provide adequately for the safety of his investment. This condition has been recognized for several years and diligent efforts have been made to provide a remedy.

I

Conditions are unsatisfactory in respect to both land-mortgage long-term and personal short-term credit, but the former is generally conceded to be the more fundamental and important problem. Notwithstanding all difficulties, the farmer has succeeded in getting a good deal of money on mortgage security. The total is estimated at more than $3\frac{1}{2}$ billion dollars. Much of this amount is loaned at reasonable rates, but in many sections interest is unreasonably and unnecessarily high, and, for the most part, the loans are made for relatively short terms—three to five years.

This condition is shown by the study which was made of the subject for the Department of Agriculture under the direction of Mr. C. W. Thompson. Mr. Thompson sent a set of questions to five representative farmers in each county of the United States, another to the country banks, another to agricultural agents, and still another to the thirty thousand local crop correspondents who report regularly to the Bureau of Crop Estimates in the Department of Agriculture. The replies were grouped geographically and the results were tabulated to show the average interest rates and the average commission paid on farm mortgages in the different sections of each state in the Union.

Only in New York, New Jersey, and Pennsylvania does the average interest rate fall close to 6 per cent, and the commission makes the average total cost of loans from one-half of 1 per cent to 1 per cent higher. Interest rates on farm mortgages are generally somewhat more than 6 per cent in Delaware, Maryland, Virginia, West Virginia, and North Carolina. Even in New England, where capital is abundant, farm-loan rates average over 6 per cent. The averages are from 6 to 8 per cent in Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Kentucky; and from 8 to 10 per cent with a few districts reporting as high as 11 and a fraction in Nebraska, Kansas, and South Dakota in the Middle West, in South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, Arkansas, and Louisiana in the South, and in Washington, Oregon, California, Arizona, and Utah in the far West. Most of the farm-mortgage rates in Texas are more than 10 per cent, and this is true also in North Dakota, Montana, Idaho, Wyoming, Colorado, and New Mexico. In Oklahoma the conditions reported were the worst of all, not a single section of the state reporting as low an average rate as 10 per cent and one section averaging as high as $14\frac{1}{2}$ per cent. In some parts of Oklahoma the addition of commission charges to the interest rate brings the total cost to the farmer above 19 per cent. This figure being an average for a considerable part of the state, it follows that there must be many cases in which the cost is even more exorbitant.

Very little of the farm-mortgage business is done on the amortization plan, and some of the institutions operating on that plan

compel the repayment of principal in rather too short a time. As the amortization-plan business is an insignificant part of the whole, renewals are necessarily frequent, with the attendant commission charges and other costs. It is obvious that notwithstanding the fact that large amounts are already loaned on farm mortgages and that many cases can be cited in which the interest charges are not unreasonable, there is nevertheless a big national problem to be solved in improving and extending agricultural land mortgage credit.

It is a problem in which the nation is even more vitally interested than the farmer himself, for availability of funds at reasonable rates is encouragement to the farmer to improve his lands and so increase his yield of foods. The farmer's temptation to "rob the soil" which might be another's after the old-fashioned three-year or five-year mortgage should fall due does not exist under the long-term, non-callable, amortization-plan mortgage which gives the farmer a satisfactory sense of permanence in his land ownership and makes him the most interested and diligent conservator of his soil. Such a change in attitude interests and benefits us all, for it is certain to increase our national agricultural productiveness.

But improvement of farm lands and increase of food supply are not the only important changes which may be brought about by improved rural credits. We may also expect that better credit facilities will increase the number of independent home-owners working their own lands and reduce the number, or at least reduce the proportion, of tenants laboring on the lands of absentee landlords. This would surely represent an advance, for in this country of ours there is already enough absentee landlordism on the farm to give us very serious cause for apprehension. We may hope, too, that improvement in rural credits will tend noticeably to check the drift of population to great cities, which, it is generally recognized, has gone too far for the good of the country.

A great national problem is involved in increasing the nation's food supply and in improving the character of the nation's citizenship by diffusion of ownership in land. Because of these distinctively national underlying purposes the development of land-mortgage credit must as a matter of general policy be accomplished through national legislation. And from a technical point of view

the problem is national, because the greatest possible mobilization of mortgages on lands of diverse character and subject to diverse conditions, together with the strongest possible securities and guaranties, will bring the lowest interest rate for capital and the best security for the investor; and only a national system can afford such adequate mobilization and such strong security. All political parties, practically all members of both Houses of Congress, and practically all students of the question agree that a national land-mortgage system had to be developed and established by Congress and Congress has finally established such a system. A brief recital of the steps leading up to this action may be of interest.

II

The subject of rural credits was mentioned in the platforms of all the great political parties in 1912, and each pledged itself to action for the betterment of credit facilities on the farm. The Democratic platform declared that the question is "of equal importance with the question of currency reform." The Republican platform contained substantially the same declaration: "It is as important that financial machinery be provided to supply the needs of the farmer for credit as it is that the banking and currency systems be reformed in the interest of general business." The Progressive party pledged itself "to foster the development of agricultural credit."

In the spring of 1913 a commission of seven members appointed by the President traveled through Europe co-operating with a commission made up of members appointed by governors of the several states and some of the Canadian provinces, to study agricultural-credit conditions in the Old World. This commission concluded from a study of European experience that long-term land-mortgage credit presents a problem so distinct from that of short-term personal credit that the two forms of credit cannot well be handled by the same bank or system of banks. The commission believed that the consideration of short-term personal credit should be deferred until after a land-mortgage system had been established, because the principles to be applied to the establishment of land-mortgage credit involve a more radical departure from existing practice in

the United States and because it must remain uncertain to what extent existing institutions can cope with short-term agricultural credits until we shall have had the opportunity to observe the effect of the Federal Reserve act and an adequate land-mortgage system, both of which should have a distinctly helpful effect on agricultural short-term credits.

The commission appointed by the President embodied its recommendations for the establishment of an agricultural land-mortgage system in a specific bill, which was introduced simultaneously in the Senate by Senator Fletcher of Florida and in the House of Representatives by Representative Moss of Indiana in January, 1914. Space does not permit a full description of the provisions of this bill. It proposed the organization under federal charter of land-mortgage associations without limit as to number, with a minimum capital of \$10,000 each, to operate within the territorial limits of a single state. These associations might be organized either on the co-operative principle or on the joint-stock banking principle, and each was authorized under certain restrictions to issue its own bonds secured by farm mortgages. This bill was generally condemned by farmers' organizations because it was believed that under the conditions prescribed joint-stock banks would be organized rather than co-operative banks and that the bill was on the whole rather a bankers' than a farmers' measure.

Many bills were introduced at about the same time in both Houses of Congress dealing with rural credits and especially with the agricultural land-mortgage problem. The several bills represented different degrees of radicalism; some were well conceived and carefully drawn, others very hasty and incomplete. Of all the bills introduced by individual members, the one which received the most attention and the highest indorsement from farm organizations was that introduced by Representative Bathrick, of Ohio, providing for the loaning of money on agricultural land mortgages directly from the United States Treasury.

At the same time the Department of Agriculture was making an extensive study of rural credits. As a result of this study considerable valuable information was given to Congress, but the department did not evolve any concrete plan.

President Wilson, in his annual message delivered before the two Houses of Congress in December, 1913, called attention to "the urgent necessity that special provision be made also for facilitating the credits needed by the farmers of the country."

The Committees on Banking and Currency of the Senate and House appointed subcommittees on rural credits, and the two subcommittees held joint hearings and discussions for several months early in 1914. The joint subcommittee framed a bill which was introduced simultaneously in the two Houses in May, 1914, by Senator Hollis, of New Hampshire, and myself, respective chairmen of the two rural-credits subcommittees. Like the Fletcher-Moss bill, it dealt only with the land-mortgage problem. It provided for the organization under federal charter of small co-operative farm-loan associations, each to operate in a county or group of contiguous counties, making mortgage loans only to its own stockholders and in turn selling the mortgages, with its indorsement, to a Federal Land Bank, in which each local association was to be a stockholder. The bill provided for the organization of twelve such land banks, each with a minimum capital of \$500,000, and each to operate within a district fixed by the Federal Reserve Board, the twelve districts to comprise the whole United States. The organization of the land banks was insured by a provision that the federal government should buy as much of the minimum capital stock of each of the land banks as might not be subscribed by local associations or by the public within thirty days after the opening of stock subscription books. The land banks were to issue bonds from time to time as they required funds, upon the approval of the Federal Reserve Board, and at a rate of interest fixed by the Board, and each bank was to guarantee the bonds of each of the other banks. In case the bonds did not sell readily at the interest rate prescribed by the Federal Reserve Board, provision was made for the purchase by the Secretary of the Treasury of such amount of the bonds as might be requested by the Federal Reserve Board, not to exceed \$50,000,000 in any one year.

The general plan proposed by this bill was followed in the Farm Loan act finally passed, though many minor modifications were made, as well as certain very important changes, such as the estab-

lishment of a system of joint-stock land banks and the elimination of the provision for purchase of farm-loan bonds by the Treasury, which will be hereafter discussed in greater detail.

The Hollis-Bulkley bill met with general approval, except with respect to its provisions for government aid, which by many were considered too radical, and encountered determined opposition. The controversy over government aid made it impossible for the bill to be reported out of committee in either House for action by the Sixty-third Congress.

During the closing days of the Congress the Senate adopted, as an amendment to the agriculture appropriation bill, Senator McCumber's bill, which proposed to create, in the Department of the Treasury, a bureau of farm credits to loan on farm mortgages, at 5 per cent, an unlimited amount of government funds, to be raised by the sale of United States $4\frac{1}{2}$ per cent bonds at par. Briefly, the amendment was radical in the extreme, and very loosely drawn, practically the whole operation of the system being left to executive discretion. It is hardly necessary to discuss in detail the provisions of the McCumber amendment, as it passed the Senate without discussion, and was apparently agreed to by Senators who could not have been in sympathy with its provisions, merely for the sake of injecting the subject of an agricultural land-mortgage system into the agriculture appropriation bill, so that the committee of conference between the two Houses would be authorized to deal with the question. A conference committee has very broad discretion in dealing with any subject-matter which is in disagreement between the two Houses, and its report is not subject to amendment, but must be voted up or down as a whole.

When the Senate amendments to the agriculture appropriation bill were considered in the House on March 1, the House voted to substitute for the McCumber amendment the Hollis-Bulkley bill, with minor technical changes, the only important change being the provision for the administration of the system by a newly created Farm-Loan Board, instead of by the Federal Reserve Board, as provided in the Hollis-Bulkley bill. This change was clearly an improvement, as agricultural interests will always feel greater confidence in the viewpoint of their own board than in that of a body

engaged primarily with problems of commercial banking; furthermore, it is already demonstrated by experience that the duty of administering the land-mortgage system would have been too much to add to the already burdensome tasks of the Federal Reserve Board.

But neither the McCumber amendment nor the Hollis-Bulkley amendment was enacted. The conference committee proposed, and Congress adopted, in lieu of both amendments, a provision creating a joint committee on rural credits made up of members of the two Houses, instructed to report to the Sixty-fourth Congress in January, 1916. The joint committee promptly organized and designated subcommittees on "Land Mortgage Loans" and "Personal Credits." In January, 1916, the joint committee made its land-mortgage report to Congress, and submitted a bill to create an agricultural land-mortgage system, the bill being introduced simultaneously in the Senate by Senator Hollis and in the House by Mr. Moss.

This bill was debated and passed by both Houses with some amendments, but in all essentials it passed as reported by the joint committee. It is worth while to recall how nearly unanimously this measure was passed. It passed the Senate on May 4 by 57 to 5, and the House on May 15 by 295 to 10. The conference report was adopted in the House by 311 to 12 and in the Senate without objection. The act was approved by the President and became a law on July 17, 1916.

III

Those who were charged with framing agricultural land-mortgage legislation were confronted with the problem of making a national system to apply to lands under many state sovereignties and under greatly varying conditions of climate, soil, crops, character of ownership, and methods of cultivation; they were confronted on the one hand with the American farmer's individualism and lack of co-operative experience, and on the other hand with his distrust of a system operated by bankers for banking profits; they were called upon to devise a system of land appraisal liberal enough to satisfy the borrower, yet careful enough to satisfy the investor in land-mortgage bonds, and to devise a system of man-

agement efficient in operation yet without the payment of large salaries or commissions; they were called upon to reduce interest on farm mortgages without unduly enhancing values of farm lands; they had to establish long-term loans in a country in which the amortization system was practically unknown, and they had to reconcile widely divergent views as to the proper function of the government in the premises. There should be no surprise that the act as passed comprises 35 sections and covers 25 large pages. Nor should we criticize the complexities of the act. Complexities and difficulties are inherent in the subject and in the surrounding conditions. The true test to be applied to the act should not be its brevity, or the ease with which it may be understood by the casual reader, but rather its adaptation to all existing conditions and to all the purposes to be accomplished. Simplicity should be manifested rather in the smooth working of the law in actual operation than in the smooth wording of it on paper. And by this true test the law bids fair to justify itself, though it would obviously be idle to expect perfection in a law setting up a system so new to our people that it must of necessity be largely experimental. Criticism of the "complexity" of the act and criticisms of its mechanical workings must not be taken too seriously. The critics have had as little opportunity to observe its practical operation as have the authors. Whatever defects are developed by experience can be easily corrected, and there is likely to be as little partisanship shown in the task of correcting flaws as was shown in the preparation and enactment of the law.

In presenting the bill to the Senate last April Senator Hollis said: "The plan has been criticized because it is cumbersome and complicated and because the bill is long. . . . But the bill is not really long. It is as long as it is in order to make the operation simple and certain. It is not cumbersome. There could not be anything simpler than this bill." This is substantially true. Yet the act contains nearly sixteen thousand words. A recital of all of its provisions would be tedious, and, unless special stress were laid on the vital points, it would tend only to confuse. For the present purpose the important things may be conveniently emphasized by the entire omission of minor details and technicalities.

To get in a few words the essence of what is in the law, we may turn to the description of it that Senator Hollis gave to the Senate when he presented his bill:

The pending rural-credits bill provides for a Farm-Loan Board which shall have general control over the system; twelve or more land banks which make loans on mortgage to the farmer; and many farm-loan associations which represent the farmers in their dealings with the land banks.

The Farm-Loan Board is non-partisan, consisting of four members, in addition to the Secretary of the Treasury.

Each land bank must have a capital of at least \$500,000.¹ If the public does not subscribe the entire amount, the government will take the balance.

The farm-loan associations are purely co-operative, made up entirely of borrowing farmers. Ten or more farmers may apply to the land bank of the district for a charter. Every farmer who wishes to borrow must become a member of the loan association, taking stock to the amount of 5 per cent of the face of his loan. The loan association takes out an equal amount of stock in the land bank, forwarding the money at once to the land bank. The land bank sends an official appraiser to examine the land, and, if the loan is made, forwards the funds to the farmer through the loan association.

When the land bank has mortgages on hand to the amount of \$50,000, it may issue a like amount of farm-loan bonds on the security of the mortgages as collateral. The land bank is limited in its issue of bonds to 20 times its capital and surplus. But as each borrower puts up 5 per cent of his loan in cash for capital stock, the issuing power of the land bank increases automatically.

The loan associations are purely co-operative and may be of limited (double) liability or unlimited liability.² All mortgages taken by the land bank from the members of a loan association are indorsed by it. The mortgages from the two classes of associations are kept separate, and bonds issued on the unlimited liability² mortgages should sell on a better basis than the others.

Farm-loan bonds issued by any land bank are guaranteed by all the other land banks, so that they have a broad insurance.

Every farm-loan bond is secured as follows:

1. By the capital, reserves, and earnings of the land bank which issues it.
2. By the capital, reserves, and earnings of the 11 other land banks.
3. By the collective security of all the mortgages in its division (limited or unlimited) of the land bank, the mortgages pledged being at least equal in amount to the outstanding bonds.

Every mortgage pledged as collateral is secured as follows:

1. By the personal undertaking of the borrower.

¹This was amended. The act provides a minimum capital of \$750,000.

²The "unlimited liability" provision was eliminated by amendment.

2. By the security of the mortgaged land, in value at least double the amount of the loan.
3. By the capital, reserves, and earnings of the local association indorsing the loan.
4. By the individual liability of the members of the indorsing association.

It is believed that these bonds will be marketed at par on a 4 per cent basis. The maximum charge for expenses and profits of the system is 1 per cent on the face of outstanding mortgages, so that the farmer should get his money at 5 per cent. All the profits go to the loan associations in dividends and thus to the borrowers who are the shareholders in the local associations.

Loans to farmers are on long term, and may be as long as thirty-six¹ years. They are on the amortization plan, so that with each interest payment the borrower will pay in a small amount on his principal. If he pays in 1 per cent of the principal yearly, he will pay out in thirty-six years.

Loans must be on first mortgage and may not exceed 50 per cent of the appraised value of the land. The loan committee and the board of directors first pass on the value of the land and the character of the farmer. Before the land bank makes the loan its board of directors passes upon it and has the land appraised by a land-bank appraiser, who is a government official. In this way absolute safety is secured for each loan.

The interest of the members of the loan association is secured by their ownership of stock, and by their double or unlimited liability,² as the case may be. Most of the local work of investigation, collecting payments, and forwarding funds is done by them without expense. Their expenses will be very light.

The mortgages and farm-loan bonds will be exempt from taxation and the bonds will be a legal investment for trust funds.

It is believed that the system of land banks outlined affords a safe and attractive farm-land bond for the investing public; low interest rates, long-term mortgages, and easy payments for the farmers; low cost of administration; simplicity of organization and operation; adaptability to the needs of every section; and stimulation to the spirit of generous co-operation among farmers.

The system thus described is founded on sound principles. The mobilization of farm mortgages behind the several series of farm-loan bonds and the mutual guaranties of the Federal Land Banks make possible the creation of a national security in which investment may be made without the risks attendant upon the possible mismanagement or failure of individual farmers or upon sectional crop failures or catastrophes. Certainly through a period of years most of our farmers will succeed in paying their debts, and through

¹ Bill amended to provide for a maximum period of forty years.

² The "unlimited liability" provision was eliminated by amendment.

this well-organized mobilization of mortgages will absorb the losses incident to individual failures, so that the investor will have a security so safe that he can afford to accept a return representing only the actual value of the use of the credit, without adding anything to compensate for the risk which has hitherto been involved in farm mortgages.

The exemption of the mortgages and farm-loan bonds from taxation only avoids double or treble taxation, since the lands which are the real basis of value remain subject to taxation according to the laws of the several states. The tax-exemption feature makes the bonds a more desirable investment and should substantially reduce the rate of interest demanded by the investor.

Another valuable feature of this co-operative land-mortgage system is that it is so organized that it will be to the advantage of all who have a voice in controlling it to reduce the interest rate to the farmer; all self-interest in raising rates has been eliminated. Quite properly whatever profits may arise from the operation of the system will ultimately go back to the borrowers in the form of dividends upon the stock of the local associations which they are required to purchase.

The amortization plan is established on absolutely sound principles. Amortization-plan loans cannot well be made by individual investors or by small institutions, since such lenders cannot use to advantage the small dribblets of repayment on capital account which come in from year to year over a long period. Amortization loans should be made by institutions of large size, so that the annual amortization payments will be in sufficient volume for efficient reinvestment or for retiring obligations of the loaning institution. The concentration of the bond-issuing power in the twelve land banks adequately covers this point, as each of the institutions will undoubtedly have out enough loans so that the annual repayments on principal account will be considerable.

The act very wisely provides that the loans are to be made through small local co-operative associations. This gives the system the benefit of the knowledge which the farming members have concerning neighborhood land values and the personal character and ability of the applicants for loans. We may be assured that this

knowledge will be used to protect the banks against making questionable loans, since every loan is guaranteed by the local associations and thus its ultimate repayment is a matter of direct financial interest to each and every member stockholder of the association. Of course the land banks and bondholders are still further protected by the close government supervision provided.

Co-operation is relatively new to the American farmer, and we often hear it said that he will not take kindly to a system which forces his co-operation with his neighbors and makes known to them the details of his land-mortgage operations. There is no doubt some force in this, but the loan applications already received by the Federal Farm-Loan Board are abundantly sufficient to insure the successful inauguration of the system, and there is every reason to believe that the actual operation of the system will provide such an object-lesson in the benefits of farmers' co-operation that the objections which have been suggested will, as time goes on, more and more fade into insignificance. In order to accelerate the farmers' education in the co-operative idea as well as the other features of the operation of the Farm-Loan act, the Farm-Loan Board is authorized from time to time to prepare and distribute bulletins on the subject. With the help of this provision for propaganda the sound principles underlying the system should soon commend themselves to American farmers generally, and there is every reason to believe that the Farm-Loan act marks the beginning of a great and valuable co-operation among farmers hitherto unknown and believed to be impossible.

IV

There is a danger that legislation designed to encourage farm ownership by making farm lands more available as security for mortgages and by reducing the rate of interest on farm loans may defeat its own purpose. For if land is made more readily available as security, and the interest on mortgage loans is reduced, the value of the land is thereby increased. And if the value is increased, the increment of price will go to the present owner of the land, and it will be so much the harder for the tenant or farm hand to become a farm-owner, and the community will not be benefited

at all. Some enhancement of farm-land values probably cannot be altogether avoided if we are to improve farm-mortgage conditions at all; but it is a tendency which should be minimized as far as possible.

The most practicable plan which has been devised to guard against the tendency to land speculation is to provide for the making of the loan to the man rather than to the land. The Farm-Loan act does this, for it limits the amount that may be loaned to any one individual to \$10,000, and it limits the purposes for which a loan may be made. No loans may be made through farm-loan associations except to provide for the purchase of land for agricultural uses; for the purchase of equipment, fertilizers, and live stock necessary for the proper and reasonable operation of the mortgaged farm; for buildings and for the improvement of farm lands; or to liquidate indebtedness of the owner of the mortgaged premises existing at the time of the organization of the new system or subsequently incurred for one of the specific purposes here set forth. Loans are to be made only to those who are actually engaged, or agree forthwith to engage, in the cultivation of the mortgaged land. With these restrictions it is obviously impossible that anyone could use this system for the purpose of holding land for a rise in value, and it would be difficult for a landlord taking the benefit of tenant labor to get much advantage out of the system.

Unfortunately the provisions intended to safeguard the system against possible speculative uses are not made to apply to the joint-stock banks for the incorporation of which under federal charter provision is made in the act. It is provided that Joint-Stock Land Banks may be organized by private capital subject to the same requirements and conditions as provided for the Federal Land Banks; each is to have at least \$250,000 of capital stock and to be limited in the making of loans to first mortgages within the state in which it has its principal office and within some one contiguous state. The Federal Farm-Loan Board may use its discretion with respect to chartering these institutions, and has decided to defer the issuance of any charters until the organization of the Federal Land Banks shall have been completed. These Joint-Stock Land

Banks are permitted to make loans to others than cultivators of the soil, are not limited with respect to the purposes for which loans may be made, and are subject to no fixed maximum which may be loaned to any one individual. They will, therefore, to the extent that they are successful, tend to increase land prices, and so to make more difficult the acquisition of land by the landless, and to make more easy the financing and carrying of large landed estates by absentee landlords. In fact, the large loans will be the most encouraged because they are likely to be most profitable to these institutions organized solely for profit.

The Joint-Stock Land Banks will provide a very unnecessary competition with the co-operative system, which, being so organized as to turn back to the borrower every dollar above the actual cost of getting his loan, needed no competition so far as the borrower's interest is concerned. Every piece of business which the Joint-Stock Land Banks may succeed in drawing away from the co-operative banks will increase the overhead costs of the co-operative system and so increase the interest rate to the borrower. The tax exemptions provided in favor of the Joint-Stock Land Banks will inure to the benefit of the capitalists investing in the stock of the banks and to the benefit of the owners of land. It is, of course, true that many active farmers are owners of land, but the benefits provided through the co-operative loan associations are available to them because of the fact that they are active farmers, and are limited to their needs as active farmers, whereas the benefits provided through the Joint-Stock Land Banks are available to them because they are landowners, and are available to the extent that they are landowners without respect to whether they are active farmers or not.

The territorial limitations permitting a Joint-Stock Land Bank to do business only in the state of its principal office and one contiguous state provide too large a territory to permit that close personal knowledge of lands and borrowers which will be possible for the co-operative loan associations, yet too small a territory to insure the bonds of such institutions against the possible ruinous effects of sectional crop failures or disasters.

V

The provision of the act making the land banks depositories of government funds is technically open to criticism. Of course, this could not have been done for the sake of the convenience of the Treasury Department. It was done undoubtedly for the purpose of permitting the Secretary of the Treasury to deposit funds in order to help out the banks in case they may need to be tided over in making interest payments on outstanding farm-loan bonds. Such help will tend to insure promptness in the payment of bond interest and so perhaps make the bonds more salable, and it can in a measure be justified, though a more direct and substantial method of government aid would have been preferable. The method adopted establishes the principle of government aid, but the limitation providing that no more than six million dollars may be on deposit with the land banks at any one time is such as to make the substantial effectiveness of the aid very doubtful, especially if the bonds outstanding shall amount to hundreds of millions of dollars.

Farm-loan bonds secured by the mortgages provided for in the act may be issued by the several Federal Land Banks, as was stated above, to an amount not exceeding twenty times their capital stock, but each loan made automatically increases the capital stock of the bank making it, because the indorsing loan association is required to buy land-bank stock to the extent of 5 per cent of each loan made on its indorsement. The rate of interest will be fixed by the Farm-Loan Board but cannot be higher than 5 per cent. The security behind these bonds has been specifically stated in the extract quoted from Senator Hollis' speech, and there is no reason to doubt that such tax-free bonds will afford a very appropriate employment for capital seeking long-term investment. Senator Hollis says of such capital:

It includes the ordinary savings of the school-teacher, clerk, minister, and wage-earner; the proceeds of life insurance in the hands of widows and other beneficiaries; funds belonging to estates, minors, and wards in chancery, in the hands of executors, guardians, and trustees; funds of insurance companies, benevolent orders, and societies of various kinds; endowments of colleges, hospitals, museums, and other institutions; and assets to be invested by

receivers, courts, and governments. The aggregate of these is enormous. They require an investment that is absolutely safe and reasonably liquid in the sense that it may be converted into cash upon moderate notice; in other words, that it may find a ready market. A safe investment of this character need not carry a high rate of interest.

The bonds seem good enough to command a wide market at a very low rate of interest, yet it is hardly reasonable to expect that they will sell readily in competition with more seasoned issues pushed by expert salesmen making commissions on their sales; at least until the farm-loan bonds have themselves become somewhat seasoned through prompt payment of interest over a series of years, the building up of land-bank reserves, and a more accurate general understanding of the financial status of the Federal Land Banks. It is likely, therefore, that the first issues of bonds will have to carry a somewhat higher rate of interest than will be demanded after the system is more firmly established and better known to the investor's mind. This in turn leads to another embarrassment which aggravates the situation. If it is likely that future bonds will be issued at a rate of interest lower than that carried by the first issue, it follows that when that happens the farmers will be able to borrow at a lower rate and the first borrowers will want to refund their loans into new loans carrying the lower interest rate. This they can do, as their mortgages are payable at their option after five years. The probability that a large number will be refunded after five years into new loans at a lower rate makes it necessary that the bonds now issued must be callable at the option of the land banks at par after five years. This in turn makes the present bonds less desirable as an investment, as the market value could not go very much above par when the bonds are callable at par in so short a time. This in turn tends to necessitate a higher interest rate on the bonds first issued. In view of these considerations, it seems likely that the Farm-Loan Board will at the outset fix rates of interest on the bonds at the maximum rate, 5 per cent. This would make the interest rate to the farmer 6 per cent and would be a great relief in nearly every section of the country. But will these unseasoned bonds, which are so far not very well advertised, sell sufficiently readily, even on a 5 per cent yield,

without the services of brokerage houses or bond salesmen for whose compensation no direct provision is made in the act? In one respect the situation is most favorable. So much money has been made in the course of the existing industrial prosperity, and so much is still being made, that great accumulations must of necessity be seeking investment now and in the near future. There could hardly be a more favorable time so far as financial conditions are concerned for marketing bonds of this character. It is to be hoped that under these conditions a sufficient number of the bonds will be readily absorbed to insure the success of the system.

The provision of the Hollis-Bulkley bill for purchase of bonds by the Secretary of the Treasury would have solved this question beyond doubt. It might have created sufficient public confidence to assure the purchase of the bonds by the public, so that no call whatever would have been made upon the Treasury. But if it had resulted in making a substantial call upon the Treasury in the course of the coming spring, it would of course have been necessary to increase correspondingly the United States bond issue which seems likely to be necessary in any event. As the law now stands, without any provision for the purchase of farm-loan bonds by the Treasury, it is difficult to say just what would be done in the event the market should fail to absorb farm-loan bonds sufficiently rapidly to meet the demand for loans. It would seem that a government system having been set up, supported by Treasury subscription to capital stock of land banks and deposits of Treasury funds to tide over emergencies, the opposition to government aid has more or less frankly collapsed, and the only question remaining is as to the kind and amount of government aid which shall be afforded. This will not be determined by any theoretical considerations; it necessarily follows from the mere establishment of this government system that the government must and will give it support to whatever degree and in whatever manner may be necessary to make it a success. The government, having subsidized the system by purchasing millions of dollars of capital stock of land banks upon which it cannot get a dividend, could hardly refuse in case of necessity to purchase farm-loan bonds, a preferred security paying the market rate of interest.

The establishment of an entirely new system must at best be in part an experiment, and it is to be expected that experience will point the way to many changes and improvements in the Farm-Loan act; yet it is certain that a very auspicious start has been made, and the very anticipation of the establishment of a federal farm-loan system has already caused interest rates on farm mortgages to come tumbling down to a very marked degree throughout the length and breadth of the country. This is as it should be. There is no reason why banks and insurance companies or private investors should be driven out of the farm-loan business, but it is most important that they should be held in check by the active competition of a co-operative system under efficient government supervision and control.

The Farm-Loan act provides adequately for the mobilization of farm-mortgage credit; it establishes the amortization system of repayment; it provides adequately for care and conservatism coupled with real sympathy in the making of loans; and it provides some safeguards against the undue use of the benefits of the system for land speculation. It has given us a well-qualified and efficient Farm-Loan Board, and has committed the government, without party division, to the great task of establishing an adequate American agricultural land-mortgage system. A great reform, agitated and labored with for years, has already begun to bear fruit, and bids fair in the course of the next few years to fulfil most of the hopes that have been aroused by the discussion of it.

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